



WANG JIN, Chairman
LIU YU, Chairman
LIU YU, Chairman
LIU YU, Chairman

ANNUAL REPORT 2001

PURE TECHNOLOGIES LTD.

CORPORATE PROFILE

PURE TECHNOLOGIES LTD. IS AN INTERNATIONAL TECHNOLOGY COMPANY WHICH HAS BECOM



WORLD LEADER IN PROVIDING INFORMATION AND COMMUNICATIONS TECHNOLOGY FOR INFRASTRUCTURE MANAGEMENT. PURE HAS DEVELOPED AND PATENTED A UNIQUE TECHNOLOGY CALLED **SOUNDPRINT®** WHICH USES ACOUSTIC TECHNIQUES COMBINED WITH INTERNET-BASED DATA ACQUISITION, TRANSMISSION, PROCESSING AND REPORTING TO PROVIDE REAL-TIME CONTINUOUS SURVEILLANCE OF LARGE STRUCTURES. PURE DESIGNS AND PROVIDES SYSTEMS AND CONTINUING REMOTE MONITORING AND TECHNICAL SUPPORT FROM ITS HEADQUARTERS IN CALGARY, CANADA, SUBSIDIARY IN THE US, AND A STRATEGIC PARTNERSHIP OVERSEAS.

Pure Technologies Ltd. trades under the symbol "PUR" on the Canadian Venture Exchange.

® Registered trademark, property of Pure Technologies Ltd.





MESSAGE TO SHAREHOLDERS

2001 WAS A DIFFICULT YEAR FOR PURE TECHNOLOGIES LTD. AS A RESULT OF LOWER THAN EXPECTED SYSTEMS SALES, THE COMPANY EXPERIENCED A LOSS FROM OPERATIONS OF MORE THAN \$2M. ENCOURAGINGLY, RECURRING REVENUES FROM MONITORING AND TECHNICAL SUPPORT INCREASED TO MORE THAN \$1.6M PER YEAR AND OUR SALES PROSPECTS FOR THE COMING YEAR ARE EXCELLENT.

The unsatisfactory system sales results have been the subject of intensive focus by Pure's management. As a result of the aggressive efforts of our U.S. marketing office, established in February of 2001, we are expecting a dramatic improvement in 2002. Response to our U.S. marketing presence is now meeting expectations.

Outside North America, our international marketing partner Advitam has greatly expanded its personnel to market SoundPrint® in a number of countries, and has developed a significant project list for this year and next.

Notwithstanding the overall financial results, there were a number of positive occurrences in the past year, which bode well for the company.

Significant cost reductions were undertaken by the company to reduce annual expenses by more than \$500,000, without impairing the company's ability to market or deliver.

During the year Pure began the installation of a SoundPrint® system on a major cable-stayed bridge, the Fred Hartman Bridge in Houston, Texas, which was completed in 2002. We view this project as a critical entry into this market.

An important new technology, P-Wave™, was developed by Pure. P-Wave™ is an electromagnetic inspection technology which, combined with SoundPrint®, provides comprehensive asset management for water infrastructure owners.

We have been able to combine surveillance technology with SoundPrint® to provide owners with simultaneous health and security monitoring of their infrastructure.

Pure continues to provide critical technology and management to the Great Man Made River Authority in Libya, a 4000-kilometer water pipeline system where we expect to increase our contribution over the next few years.

Throughout this development period, we have maintained a strong balance sheet and working capital position.

The business model we have developed is more relevant than ever, combining good margins on sales with increasing recurring revenues on all projects. Our clients do not make decisions based on the business cycle, but on their long term infrastructure requirements.

Pure's technology is proving to be reliable, robust and adaptable, and can be utilized in the management of many components of the world's infrastructure. We have an array of patents and proprietary intellectual property, which we continue to expand and aggressively protect from infringers.

In summary, we look forward to a year in 2002 which will deliver better financial results and provide increased value to our shareholders.

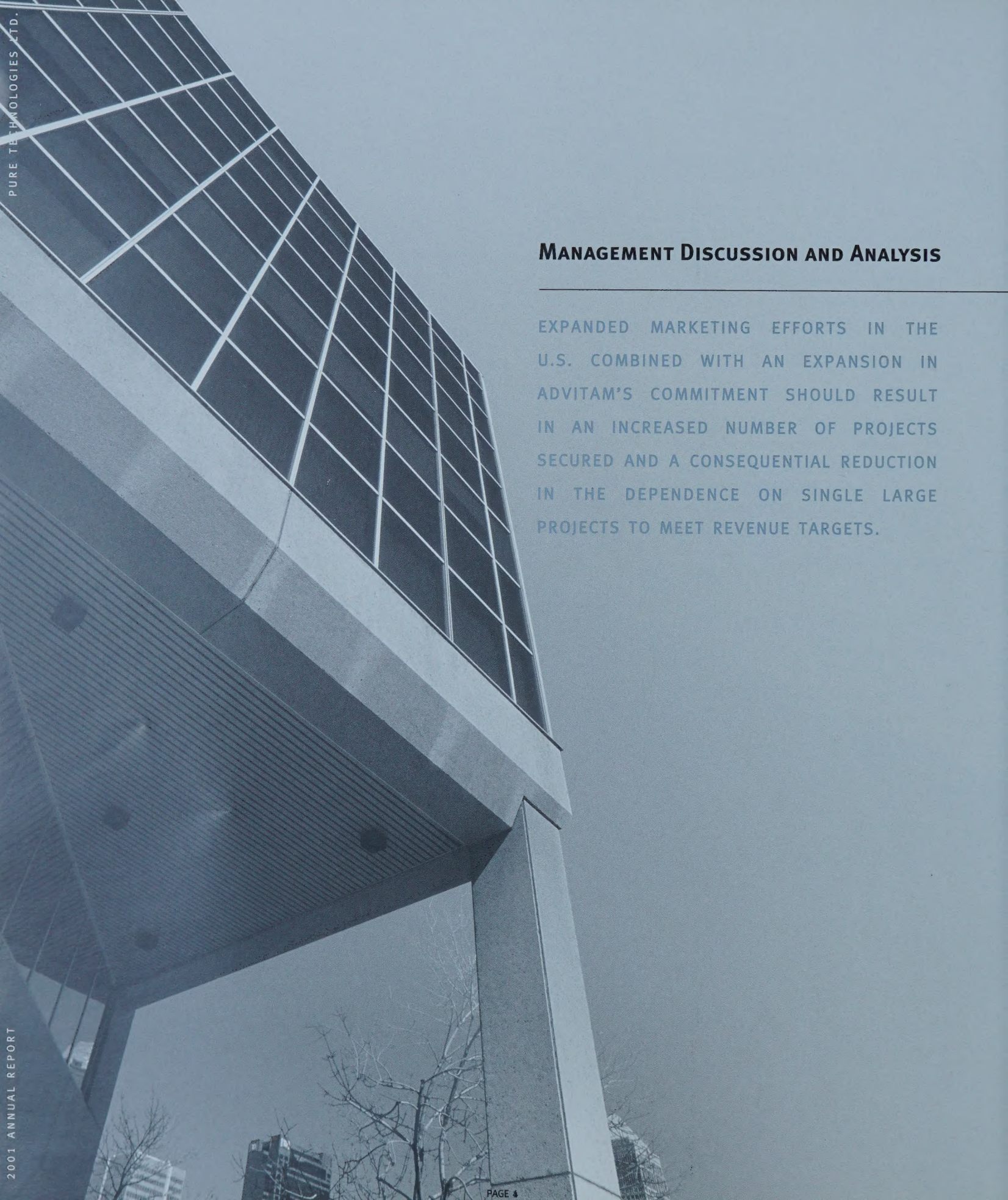
Yours truly,



Peter Paulson
PRESIDENT AND
CHIEF EXECUTIVE OFFICER



John F. Elliott
VICE PRESIDENT AND
GENERAL MANAGER



MANAGEMENT DISCUSSION AND ANALYSIS

EXPANDED MARKETING EFFORTS IN THE U.S. COMBINED WITH AN EXPANSION IN ADVITAM'S COMMITMENT SHOULD RESULT IN AN INCREASED NUMBER OF PROJECTS SECURED AND A CONSEQUENTIAL REDUCTION IN THE DEPENDENCE ON SINGLE LARGE PROJECTS TO MEET REVENUE TARGETS.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report, including, without limitation, statements containing the words "believes," "expects," "anticipates," "estimates," "intends," "plans" or similar expressions constitute "forward-looking statements". Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions and the Company's actual results could differ materially from those anticipated in these forward-looking statements. The following discussion and analysis should be read in conjunction with the Company's 2001 Consolidated Financial Statements and accompanying notes beginning on page 10 of this Annual Report.

OVERVIEW

The Company derives revenues from two major sources. The first is the sale of SoundPrint® Acoustic Monitoring Systems for structures such as buildings, bridges, parking garages, water pipelines, and other structures. Secondly, upon installation of a SoundPrint® system the Company then provides ongoing monitoring and technical support under separate agreement. The monitoring and technical support revenues represent recurring revenues which continue to grow with each equipment sale.

Pure Technologies re-focused its efforts during 2001 to concentrate on key markets and expand strategic relationships. While system sales revenues declined, recurring monitoring and technical support revenues increased significantly from the previous year.

The Company has made significant changes during 2001. Included in these initiatives were:

- Opening of a dedicated marketing office in the United States in close proximity to key clients and major population centres.
- Rationalization of marketing efforts in the United Kingdom and expansion of the strategic marketing partnership with Advitam, a sister company of Freyssinet.
- Development of a complimentary technology to SoundPrint®.
- Combination of Pure's patented acoustic technologies with sophisticated video surveillance capability.
- A corporate re-organization, completed in October 2001, which should result in annual savings of over \$500,000 without affecting operational ability.
- Transition from in-house manufacturing to third party manufacturing of key components.

These initiatives are expected to generate significant benefits in 2002 and beyond.

REVENUE

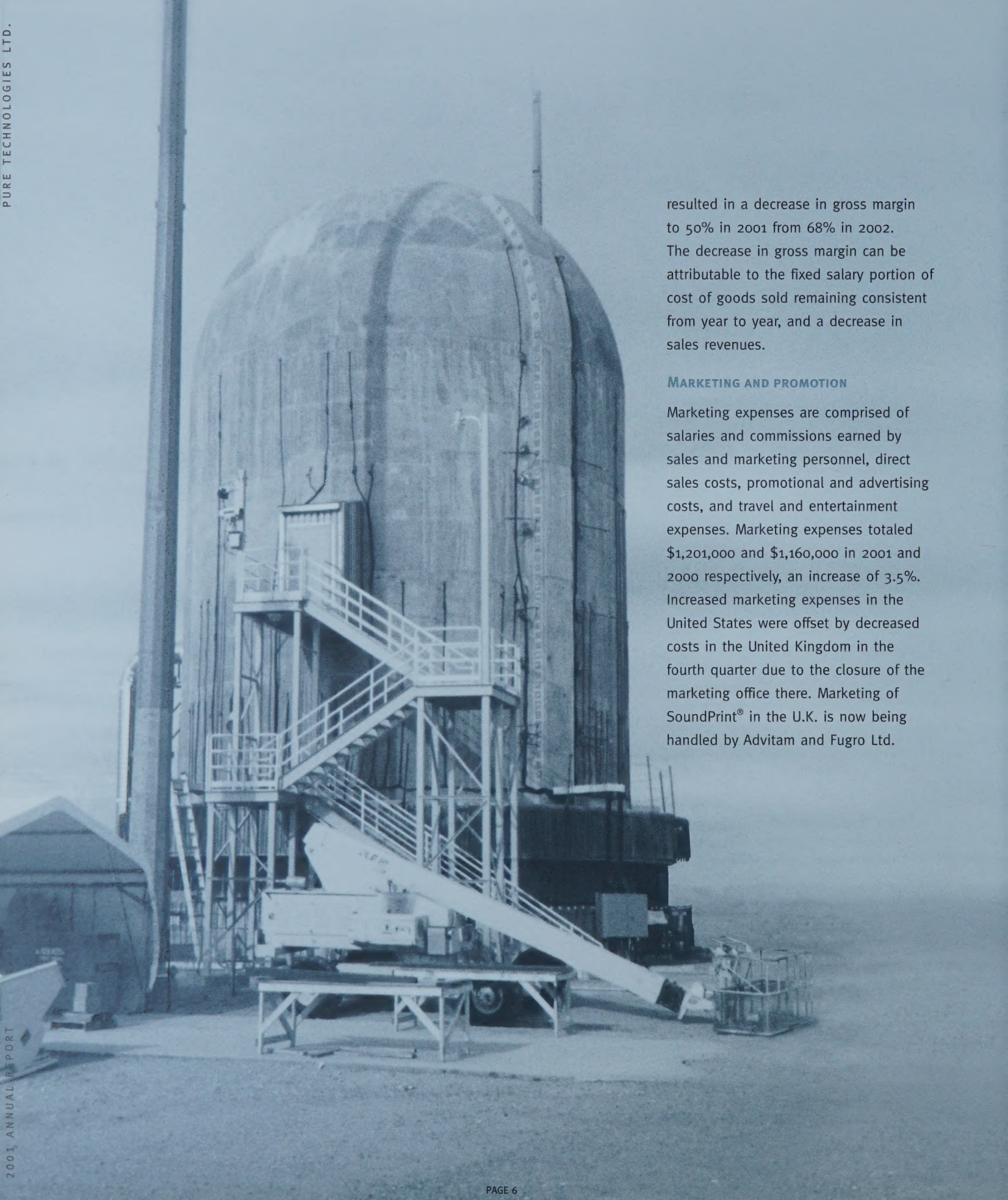
Sales revenue for 2001 was \$2,015,000 compared with \$5,009,000 for 2000, a decrease of \$2,994,000 or 60%. Ongoing and recurring monitoring and technical support revenue was \$1,644,000 for 2001 compared with \$771,000 for 2000, an increase of \$873,000 or 113% over the previous year.

Sales revenues were affected by a disappointing first half of the year due to the postponement of some projects until later in the year or until 2002. Over 50% of sales revenue in 2000 was the result of one project. A contract of similar magnitude was not received in 2001.

At year end the Company was in the process of completing the installation of a SoundPrint® system on a large bridge in the United States. Consistent with the Company's revenue recognition policy, revenue from this project will be recognized upon completion of installation and commissioning in the first quarter of 2002.

GROSS MARGIN/COST OF GOODS SOLD

Cost of goods sold decreased in 2001 to \$1,828,000 from \$1,859,000 the year earlier. This negligible decrease combined with the drop in sales revenue



resulted in a decrease in gross margin to 50% in 2001 from 68% in 2002. The decrease in gross margin can be attributable to the fixed salary portion of cost of goods sold remaining consistent from year to year, and a decrease in sales revenues.

MARKETING AND PROMOTION

Marketing expenses are comprised of salaries and commissions earned by sales and marketing personnel, direct sales costs, promotional and advertising costs, and travel and entertainment expenses. Marketing expenses totaled \$1,201,000 and \$1,160,000 in 2001 and 2000 respectively, an increase of 3.5%. Increased marketing expenses in the United States were offset by decreased costs in the United Kingdom in the fourth quarter due to the closure of the marketing office there. Marketing of SoundPrint® in the U.K. is now being handled by Advitam and Fugro Ltd.

GENERAL AND ADMINISTRATION

General and administrative expenses consist of salaries and related expenses for employees not directly related to marketing, research and development, or specific projects. General and administrative expenses also include head office operating expenditures.

General and administrative expenditures during the year increased to \$1,900,000 from \$1,186,000 in 2000, an increase of 60%. These increases reflect increased staffing levels in all areas during 2000 and continuing into 2001. A corporate re-organization was completed in 2001 which is expected to generate significant savings and to enhance the operational abilities of the Company.

RESEARCH AND DEVELOPMENT

Research and development expenses consist of technician, engineering, and developer salaries, costs of development tools and equipment, component costs and prototype expenses. R&D expenses totaled \$731,000 and \$884,000 in 2001 and 2000 respectively. The decrease of 17% is directly attributable to the reduction in component and prototype expenses, which can vary from period to period depending on the timing and length of a specific R&D initiative.

During the year the Company completed the development started late in 2000 of P-Wave™, a complimentary technology to SoundPrint®. This technology will allow owners and managers of water pipelines

to establish a baseline analysis of the structural health of their pipeline and then allow them to build on this information with continuing SoundPrint® acoustic monitoring. This development has generated significant interest in the marketplace.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased to \$409,000 in 2001 from \$267,000 in 2000 as the Company continued to invest in the infrastructure necessary to support the large amount of data collected from SoundPrint® sites around the world. In addition the Company is continuing to expand its patent and trademark inventory. Initial patent and trademark costs are capitalized.

FOREIGN EXCHANGE GAIN/LOSS

The Company is exposed to foreign exchange fluctuations as the majority of its sales revenues are denominated in U.S. dollars. Foreign exchange gains in 2001 amounted to \$172,000 compared with a foreign exchange loss of \$1,000 in 2000. The gain was the result of a decline in value of the Canadian dollar relative to the U.S. dollar during the period.

RESTRUCTURING CHARGE

During the year the Company completed a re-organization which resulted in a one-time restructuring charge of

\$198,000. The majority of this amount relates to employee severance and related charges. The re-organization was completed by October 2001 and the company does not expect to incur similar charges in 2002. The Company expects to realize savings of over \$500,000 in 2002 as a result of the re-organization without impairing any operational capabilities.

LIQUIDITY AND FINANCIAL RESOURCES

Total assets decreased to \$5,740,000 from \$7,387,000 in 2000. The decrease reflects a reduction in cash to \$420,000 from \$2,083,000 in 2000 due to normal operating requirements. Also, inventories increased to \$664,000 from \$236,000 in 2000, a result of expenses of \$371,000 classified as work in progress at December 31, 2001 for a large bridge installation in Texas which was completed subsequent to year end.

Current liabilities rose due to an increase in accounts payable to \$584,000 from \$345,000 in 2000 and higher deposits on sales contracts to \$556,000 from \$44,000 in 2000. These increases reflect the installation in Texas.

Shortly after year end payments of outstanding receivables exceeding \$1,937,000 were received. The Company's working capital remains strong and as with 2001 the Company expects to fund ongoing operations from this source.

During the period the Company filed a Notice of Intention to Make a Normal Course Issuer Bid to repurchase common shares of the Company. To date no shares have been repurchased. Any future repurchases of shares will be funded through working capital and will only be undertaken upon a careful review of working capital requirements for normal operations.

ACCOUNTING STANDARD CHANGES

In 2002 the Company will be required to adopt new Canadian accounting standards relating to stock based compensation and other stock based payments to non-employees. All prior grants have been to employees and the Company does not expect the adoption of the new standard to have

a material impact on the Company's financial condition or results of operations. The new standard is to be applied prospectively for stock based payments to non-employees and to employee awards that are direct awards of stock. For future such awards, the Company will be required to follow the fair value method, as prescribed in the standard and calculate a fair value of the stock granted and record that fair value as an expense over the term of the grant.

POTENTIAL RISKS AND UNCERTAINTIES PROPRIETARY TECHNOLOGY

Pure's success is dependent upon intellectual capital, including innovation, ideas, patents, proprietary software and technology. The Company relies principally upon copyright, trademark, patent and trade secret laws to protect its technology, as well as non-disclosed proprietary information. There can be no assurance that these laws will be

adequate to prevent third party development of the same or similar technology. The cost of defending the

Company's patent rights or defending rights against infringement charges may be significant; however the Company intends to vigorously enforce and protect its intellectual capital.

COMPETITION

There are a limited number of competitors in certain niche areas where Pure provides service. Competition for the recently developed P-Wave™ technology does exist. The Company is confident that this new technology coupled with its proprietary SoundPrint® Acoustic



Monitoring System will provide the owners and managers of these assets with information and services not currently available from any other source.

FOREIGN EXCHANGE

The Company's operating results are reported in Canadian dollars. The majority of the Company's sales are generated in U.S. dollars. The majority of the Company's costs are incurred in Canadian dollars. The opening and subsequent expansion of the U.S. marketing office and related expenses should partially offset the discrepancy between the large U.S. dollar inflows and Canadian dollar outflows. Inflows of U.S. dollars are expected to exceed outflows for the foreseeable future.

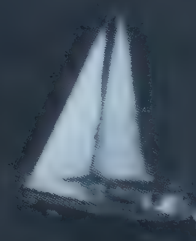
RESEARCH AND DEVELOPMENT

The ability of the Company to meet customer requirements and remain a cost effective alternative for infrastructure owners depends on its ability to continuously improve its products. The development of P-Wave™ is a good example of this ability. In addition significant resources continue to be devoted to improving the performance and efficiency of its software and hardware.

OUTLOOK

The outlook for fiscal 2002 is strong. The Company intends to build on the momentum generated by the U.S. sales office and the continuing strong relationships with its strategic marketing partners. Management anticipates

growth in both system sales revenues and continuing monitoring and technical support revenues. With the re-organization completed in the latter half of 2001 the Company has eliminated inefficiencies, reduced overhead, and positioned itself to meet the challenges of the coming year.



CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2001 and 2000

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements are the responsibility of the management of Pure Technologies Ltd. (the "Company") and have been prepared in accordance with Canadian generally accepted accounting principles.

Management is responsible for the reliability and integrity of the consolidated financial statements, the notes to the consolidated financial statements, and other financial information presented elsewhere in this annual report.

Management is also responsible for maintaining a system of internal control designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board. The Committee meets periodically with management and the auditors to review significant accounting and reporting matters. The Audit Committee recommends the approval of the consolidated financial statements to the Board.

The consolidated financial statements have been audited on behalf of the shareholders by the independent auditors, KPMG LLP in accordance with Canadian generally accepted auditing standards.



Peter O. Paulson
President and Chief Executive Officer



John F. Elliott
Vice President and General Manager

February 28, 2002

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Pure Technologies Ltd. as at December 31, 2001 and 2000 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

KPMG LLP

Calgary, Canada

February 28, 2002

CONSOLIDATED BALANCE SHEETS

As at December 31, 2001 and 2000

	2001	2000
Assets		
Current assets:		
Cash	\$ 419,624	\$ 2,083,091
Accounts receivable	3,307,339	677,088
Contracts in progress	—	3,106,231
Inventory (note 2)	664,402	236,001
Prepays	129,429	16,153
	4,520,794	6,118,564
Capital assets (note 3)	798,540	906,470
Patents and trademarks (net of accumulated amortization of \$92,234; 2000 - \$49,903)	272,912	209,328
Other assets	147,476	152,869
	\$ 5,739,722	\$ 7,387,231
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 584,109	\$ 344,640
Deposits on sales contracts	556,183	43,739
	1,140,292	388,379
Shareholders' equity:		
Share capital (note 5)	12,073,475	12,038,328
Deficit	(7,474,045)	(5,039,476)
	4,599,430	6,998,852
Commitments (note 8)	\$ 5,739,722	\$ 7,387,231

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Director



Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

Years ended December 31, 2001 and 2000

	2001	2000
Revenue		
Systems sales	\$ 2,014,887	\$ 5,009,207
Monitoring and technical support	1,644,241	770,660
	3,659,128	5,779,867
Cost of sales	1,828,097	1,859,268
Gross margin	1,831,031	3,920,599
Operating expenses		
Marketing and promotion	1,200,856	1,159,636
General and administration	1,900,356	1,186,313
Research and development	731,192	884,452
Depreciation and amortization	409,085	266,791
Foreign exchange loss (gain)	(173,865)	1,015
	4,067,624	3,498,207
Net income (loss) before restructuring charges	(2,236,593)	422,392
Restructuring charge (note 9)	197,976	—
Net income (loss)	(2,434,569)	422,392
Deficit, beginning of year	(5,039,476)	(5,461,868)
Deficit, end of year	\$ (7,474,045)	\$ (5,039,476)
Earnings (loss) per share	\$ (0.19)	\$ 0.04
Diluted earnings (loss) per share	\$ (0.19)	\$ 0.03
Weighted average number of shares		
- basic	12,497,112	11,872,387

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2001 and 2000

	2001	2000
Cash was generated from (used in)		
Operations		
Net income (loss)	\$ (2,434,569)	\$ 422,392
Adjustments for:		
Gain on disposal of capital assets	(15,045)	(23,462)
Depreciation and amortization	409,085	266,791
Changes in non-cash working capital	686,216	(3,741,544)
Share purchase loan written off	30,547	—
	(1,323,766)	(3,075,823)
Financing		
Issuance of share capital net of costs	4,600	5,718,780
Bank loan repayment	—	(175,000)
	4,600	5,543,780
Investments		
Purchase of capital assets	(258,824)	(316,170)
Proceeds on disposal of capital assets	15,045	90,120
Patent and trademark expenditures	(105,915)	(74,634)
Decrease (increase) in other assets	5,393	(84,182)
	(344,301)	(384,866)
Increase (decrease) in cash	(1,663,467)	2,083,091
Cash, beginning of year	2,083,091	—
Cash, end of year	\$ 419,624	\$ 2,083,091

Supplemental information:

The Company paid cash interest of \$nil (2000 - \$1,208) and received cash interest of \$44,611 (2000 - \$204,644) in 2001.

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2001 and 2000

1. SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

(a) Basis of presentation:

The consolidated financial statements include the accounts of Pure Technologies Ltd. (the "Company") and Pure Technologies U.S. Inc. a wholly owned subsidiary.

(b) Revenue recognition:

Revenue received from system sales contracts is recognized when products are delivered and installed and the Company has fulfilled its obligations to the purchaser.

Revenue received from monitoring and technical support contracts is initially recorded as deferred revenue and is recognized on a straight-line basis over the term of the contract.

Revenue for long-term system sales and installation contracts is recognized by the percentage of completion method based on estimated costs incurred.

(c) Capital assets:

Capital assets are stated at cost. Depreciation is provided by the straight-line method as follows:

Proprietary SoundPrint [®] software	5 years
Pipeline equipment	3 years
Computer and other equipment	5 years

When the carrying amounts of capital assets, including patents and trademarks, less related accumulated provisions for income taxes, exceeds the net recoverable amount, the excess is charged to income.

(d) Patents and trademarks:

Patents and trademarks are stated at cost. Amortization is provided by the straight-line method as follows:

Trademarks	10 years
Patents	7 years

(e) Inventory:

Inventory is carried at the lower of cost and net realizable value. Inventory is accounted for using the specific item method.

(f) Research and development costs:

Research costs are expensed as incurred. Development costs related to specific products or processes that are proven to be technically and economically feasible are capitalized and amortized over the useful life of the product or process.

(g) Translation of foreign currencies:

The financial statements of foreign subsidiaries are translated to Canadian dollars following the temporal method whereby monetary

assets and liabilities are translated at rates of exchange at the balance sheet date, non-monetary assets and liabilities and revenues and expenses are translated at rates prevailing when the related transactions occurred with all gains and losses charged to operations. Transactions conducted in foreign currencies are translated to Canadian dollars at rates of exchange prevailing at the transaction date. Monetary assets and liabilities are translated at rates prevailing at the balance sheet date. Gains and losses are charged to earnings.

(h) Income taxes:

The Company provides for income taxes using the asset and liability method. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year and future income taxes are recognized for temporary differences between the tax and accounting bases of assets and liabilities and the benefit of losses available to be carried forward for tax purposes that are likely to be realized.

(i) Stock-based compensation plans:

The Company has stock-based compensation plans, which are described in Note 5(c). No compensation expense is recognized for these plans when stock or stock options are issued to employees as all options are granted with exercise prices equal to the market price at the date of grant. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital.

(j) Per share amounts:

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated based on the treasury stock method, which assumes that any proceeds obtained on exercise of options and warrants would be used to purchase common shares at the average price during the period. The weighted average number of shares outstanding is then adjusted by the net change. The weighted average diluted number of shares outstanding under this method is 12,784,890 (2000 – 12,289,017).

(k) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions based on information available as of the date of the financial statements. Actual results could differ from these estimates.

(k) Comparative figures:

Certain comparative figures have been reclassified to comply with the current year's presentation.

2. INVENTORY:

Inventory includes raw materials of \$293,110 (2000 - \$188,721) and work-in-progress of \$371,292 (2000 - \$47,280).

3. CAPITAL ASSETS:

	Cost	Accumulated depreciation	Net book value
Proprietary SoundPrint ^(R) software	\$ 379,916	\$ 231,380	\$ 148,536
Pipeline equipment	765,271	750,448	14,823
Computer and other equipment	1,204,273	569,092	635,181
	\$ 2,349,460	\$ 1,550,920	\$ 798,540

2000	Cost	Accumulated depreciation	Net book value
Proprietary SoundPrint ^(R) software	\$ 379,916	\$ 155,438	\$ 224,478
Pipeline equipment	759,897	687,007	72,890
Computer and other equipment	986,253	377,151	609,102
	\$ 2,126,066	\$ 1,219,596	\$ 906,470

4. BANK LOAN:

The Company has a demand bank loan facility authorized to a maximum of \$500,000 with interest at bank prime rate plus 1% or U.S. base rate plus 1%.

5. SHARE CAPITAL:**(a) Authorized:**

Unlimited number of voting common shares.

Unlimited number of preferred shares issuable in series.

(b) Issued:

	Shares	2001 Amount	Shares	2000 Amount
Balance, beginning of year	12,495,666	\$ 12,423,178	9,904,500	\$ 5,273,564
Shares issued on private placement	—	—	166,666	500,000
Shares issued on exercise of options	3,000	4,600	24,500	37,340
Shares issued on public offering, net of costs	—	—	2,000,000	5,451,440
Shares issued on exercise of special warrants	—	—	400,000	1,160,834
Shares returned to treasury	(15,000)	(14,453)	—	—
	12,483,666	12,413,325	12,495,666	12,423,178
Less: Loans receivable	—	(339,850)	—	(384,850)
Balance, end of year	12,483,666	\$ 12,073,475	12,495,666	\$ 12,038,328

At December 31, 2001 the Company had loans receivable from employees relating to the purchase of 140,000 (2000 – 155,000) common shares for consideration of \$339,850 (2000 - \$384,850). The loans are non-interest bearing, due on demand and secured by the shares issued.

(c) Stock options:

The Company has authorized 1,454,550 common shares for issuance under stock options to officers and employees.

The exercise prices range from \$0.91 to \$3.00 and the options expire on or prior to December 14, 2006.

	Number of shares	2001 Weighted average exercise price	Number of shares	2000 Weighted average exercise price
Stock options outstanding, beginning of year	1,211,950	\$ 1.69	983,950	\$ 1.36
Granted	1,130,000	1.46	257,500	2.91
Exercised	(3,000)	1.53	(24,500)	1.52
Cancelled/expired	(884,400)	1.49	(5,000)	3.00
Stock options outstanding, end of year	1,454,550	\$ 1.65	1,211,950	\$ 1.69
Exercisable at December 31	561,217	\$ 2.23	1,211,950	\$ 1.69

RANGE OF EXERCISE PRICES OUTSTANDING:

Range of exercise prices outstanding	Number outstanding at December 31, 2001	Weighted average remaining contractual life	Weighted average exercise price	Number outstanding at December 31, 2000	Weighted average remaining contractual life	Weighted average exercise price
0.91 to 1.00	610,000	5.0 years	\$0.91	500,500	1.0 years	\$1.00
1.64 to 1.99	182,050	1.2 years	1.75	316,450	1.7 years	1.69
2.00 to 3.00	662,500	3.9 years	2.31	395,000	3.9 years	2.77
	1,454,550	4.0 years	\$1.65	1,211,950	2.5 years	\$1.69

(d) Agent's option:

The Company issued to the agent of the public offering completed in 2000 an option to acquire 140,000 units consisting of a common share and one half of a common share purchase warrant at a price of \$3.00 until March 7, 2001 and \$3.30 thereafter to March 7, 2002.

(e) Intention to repurchase shares:

Effective August 8, 2001, the Company filed a Notice of Intention to Make a Normal Course Issuer Bid (the "Bid") with the Canadian Venture Exchange to purchase the Company's common shares. The Bid allows the Company to purchase up to 5% of the public float of issued and outstanding shares, or 624,908 common shares, and will terminate August 12, 2002. As at the date hereof, the Company has acquired no shares pursuant to the Bid.

6. INCOME TAXES

The following is a reconciliation of the income tax expense calculated at combined Federal and Provincial rates with the income tax expense in the consolidated statement of operations and deficit:

	2001	2000
Combined federal and provincial income tax rates	42.1%	44.6%
Income taxes (reduction) at combined federal and provincial rates	\$ (1,024,954)	\$ 188,387
Tax effect of:		
Non-deductible expenses	16,840	22,300
Valuation allowance (reduction)	1,008,114	(210,687)
	\$ -	\$ -

Significant components of the Company's future income tax assets and liabilities as at December 31, 2001 are as follows:

Future income tax assets:

Operating losses	\$ 2,995,626
Research and development expenditures	404,005
Share issue expenses	131,432
Capital assets	201,719
	3,732,782

Valuation allowance	(3,575,974)
	156,808

Future income tax liabilities:

Intangible assets	(156,808)
	\$ -

The Company has income tax losses of \$7,115,502, which expire in the years 2003 to 2007.

7. FINANCIAL INSTRUMENTS:

The carrying amount of cash, accounts receivable, accounts payable and deposits on sale contracts approximates their fair value due to the short-term maturities of these instruments.

The Company is subject to a significant concentration of credit risk as a large portion of accounts receivable are from one customer. The Company has established letters of credit with overseas financial institutions for the full amount of this balance.

The Company is exposed to foreign exchange fluctuations as the majority of its sales revenues are denominated in U.S. dollars.

8. COMMITMENTS:

The Corporation is committed to payments under operating leases for office premises and vehicles through 2007 in the amount of approximately \$708,322. Annual payments are:

2002	\$	117,119
2003		114,980
2004		132,863
2005		155,585
2006 and thereafter		187,775

9. RESTRUCTURING CHARGE:

During the year, the Company conducted a review of its operations, and as a result implemented a restructuring program, including the closure of a branch office, at a cost of \$197,976.

10. SEGMENTED INFORMATION:

The Company provides monitoring equipment and technical support to customers through its geographical marketing segments. The system sales and monitoring and technical support revenue is as follows:

	2001	2000
Canada	\$ 661,651	\$ 573,782
United States	1,159,796	1,738,890
Europe, Middle East and Africa	1,837,681	3,467,195
Total	\$ 3,659,128	\$ 5,779,867

Approximately 42% of revenue for the year ended December 31, 2001 (2000 – 52%) is from one contract.



BOARD OF DIRECTORS

John J. Fleming
Peter O. Paulson
James E. Paulson
Daryl K. Seaman
Jean-Pierre Marchand-Arpoumé

OFFICERS

James E. Paulson
Chairman of the Board &
Chief Financial Officer

Peter O. Paulson
President & Chief Executive Officer

John F. Elliott
Vice President & General Manager

Scott R. Jenkins
Corporate Secretary

SOLICITORS

Bennett Jones LLP
4500 Bankers Hall East
855 - 2nd Street, S.W.
Calgary, Alberta T2P 4K7

AUDITORS

KPMG LLP
1200, 205 - 5th Avenue, S.W.
Calgary, Alberta T2P 4B9

BANK

National Bank of Canada
600, 407 - 8th Avenue, S.W.
Calgary, Alberta T2P 1E5

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company
of Canada
600, 530 - 8th Avenue, S.W.
Calgary, Alberta T2P 3S8

STOCK EXCHANGE LISTING

Canadian Venture Exchange
Symbol: PUR

HEAD OFFICE

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Canada T2R 0E3
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1-800-537-2806

Email: info@puretechnologiesltd.com
Website: www.puretechnologiesltd.com

UNITED STATES MARKETING OFFICE

B-215, 10015 Old Columbia Road,
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USA 21046
Telephone: (410) 309-7050
Fax: (410) 309-7051

ANNUAL GENERAL MEETING

Wednesday, May 15, 2002
Pure Technologies Ltd.
3rd Floor, 705 - 11 Ave., SW
Calgary, Alberta
2:00 PM

PURE TECHNOLOGIES LTD.

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Calgary, Alberta Canada T2R 0E3
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